

TO: State Directors
Rural Development

ATTN: Community Programs Managers

FROM: James C. Alsop (Signed by James C. Alsop)
Acting Administrator
Rural Housing Service

SUBJECT: Graduation of Community Facilities and Recreation Association Loans

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is being issued to remind State and area office staffs of the need to follow RD Instruction 1951-F very carefully and to fully document all actions regarding the review and refinancing of Community Facilities (CF) and Recreation Association (RA) loans.

COMPARISON WITH PREVIOUS AN:

This AN updates AN No. 3477 which was issued on August 5, 1999, and expired on August 31, 2000.

IMPLEMENTATION RESPONSIBILITIES:

1. To adequately evaluate each borrower for graduation, the area office must have detailed and current information regarding the interest of lenders in making loans within the region and State. RD Instruction 1942-A, section 1942.2(a)(2)(i), and RD Instruction 1951-F, section 1951.254(a)(2), require the State Director to maintain liaison with lenders in the State and develop criteria for determining which loans should be referred to lenders. The State Office should develop and maintain a list of interested lenders along with their lending criteria. This information should be provided to the area offices to use during graduation reviews. All contacts should be documented, and copies of the lender criteria developed by the State Office should be forwarded to each area office. If Attachment 1 is

EXPIRATION DATE:
March 31, 2002

FILING INSTRUCTIONS:
Preceding RD Instruction 1951-F

not used, documentation should contain similar information. The worksheet should be completed by servicing staff based on the results of lender interviews. Area offices that contact local lenders should provide copies of completed lender contact worksheets to the State Office.

2. A list of borrowers for the initial screening was sent to each State during December 2000. This list may have inadvertently included some guaranteed and non-program loans. Eliminate these types of loans from the list.
3. The initial screening process is intended to eliminate from further review those borrowers who clearly cannot graduate. RD Instruction 1951-F, section 1951.263(b)(1), lists circumstances where a borrower can be eliminated from further review. Information to support eliminating borrowers that do not meet minimum lending criteria should be documented in the casefile; otherwise a thorough review, including a careful review of current financial statements, must be conducted. If a borrower is eliminated from further review because they are unable to meet established minimum lending criteria, specific circumstances of the borrower and specific lending criteria that cannot be met must be documented as required by RD Instruction 1951-F, section 1951.263(b)(5). If Attachment 2 is not used, documentation should contain similar information.
4. Thorough reviews may be accomplished at the same time as the initial screening if current financial information is available in the file. If current financial information is not in the file, such information should immediately be requested from the borrower. Acceptable reviews cannot be completed without current financial information. When conducting thorough reviews, careful attention should be given to borrower investments and liquid assets, such as cash certificates of deposits, unrestricted accounts, and any restricted accounts controlled by the governing board. Funds earmarked for future facility improvements would not ordinarily be excluded from the review process unless the borrower is actively developing construction plans and seeking financing for the improvements. If Attachment 3 is not used, documentation should contain similar information.
5. Servicing officials should consider using trial referrals for those borrowers who may be able to graduate as provided in RD Instruction 1951-F, section 1951.263(d). If the trial referral is handled verbally, the results should be thoroughly documented.
6. All Community Programs servicing officials are reminded that CF and RA loans are to be reviewed for graduation with the borrower making a reasonable effort in applying to other lending institutions for a loan at reasonable rates and terms as required by RD Instruction 1951-F, section 1951.253. Applications received after a borrower has been requested to graduate will be handled in accordance with RD Instruction 1951-F, section 1951.265(a).

7. After completing the graduation reviews, please forward a list of CF and RA borrowers who have the potential to refinance outstanding debt to the National Office contact person listed below. A national listing of these borrowers will be maintained on the Rural Housing Service (RHS) world wide web site (WWW). The data required for this list includes borrower name, borrower office address, borrower representative's name, borrower representative's office telephone number, type of facility, original loan amount, date of the loan, and type of security. As borrowers graduate, please notify the National Office so data listed on the RHS WWW site can be kept current. Please continue to update the graduation information on the Rural Community Facilities Tracking System.

This AN serves as a reminder of the importance of the graduation process. If you have questions regarding this AN, please contact Jennifer Barton, Community Programs, (202) 720-1504, or fax (202) 690-0471.

Attachments

**Community Programs
Lender Contact Worksheet**
State: _____

Name of Lender: _____

Address: _____

Telephone: _____

Person Contacted: _____ Title: _____

Date of Contact: _____

Type of Lender:

___ Bank

___ Savings & Loan

___ Investment Bank

___ Bond Dealer

___ Insurance Company

___ Other (specify)

Areas of Interest:

Yes

No

Yes

No

New Loans

Water Systems

Refinancing

Waste Disposal

Joint Financing

Hospitals

Interim Financing

Nursing Homes

Guaranteed Loans

Clinics

Public Bodies

Fire & Rescue

Nonprofit Corporations

Municipal Bldg.

General Obligations

Schools

Revenue Bonds

Natural Gas

Special Assessment Bonds

Roads, Streets,

Note and Mortgage

Bridges

Other

Comments: _____

Geographic Area of Interest: _____

Estimated Amount Available for Lending: \$ _____

| | Loan Size | |
|-----------------|------------------|----------------|
| | <u>Minimum</u> | <u>Maximum</u> |
| Public Bodies | _____ | _____ |
| Nonprofit Corp. | _____ | _____ |

Estimated Current Rates and Terms:

| | Interest Rate | | |
|-----------------------|----------------------|----------------|-----------------------|
| | <u>Rated*</u> | <u>Unrated</u> | <u>Length of Loan</u> |
| Public Bodies | | | |
| Gen. Obligation Bonds | _____ | _____ | _____ |
| Revenue Bonds | _____ | _____ | _____ |
| Assessment Bonds | _____ | _____ | _____ |
| Nonprofit Corp. | _____ | _____ | _____ |
| Note and Mortgage | _____ | _____ | _____ |

*Rated Standard and Poor's BBB or Moody's BAA unless otherwise stated.

Comments: _____

Is lender interested in trial referral of borrowers who may be able to refinance?

Yes ____ No ____

Lender's Reserve Requirements:

Lender's Preferred Ratio Range:

Debt Service Coverage _____
Debt Per Capita (GO Bonds) _____
Debt to Equity _____
Current Ratio _____
Other _____

Comments: _____

COMMUNITY PROGRAMS INITIAL REVIEW WORKSHEET

Date of Review _____ Type of Facility _____

Name of Borrower _____

RATIOS:

| | |
|--------------------------------|---------------------------|
| 1. Current Assets _____ | Current Liabilities _____ |
| Current Ratio _____ | |
| 2. Long-Term Liabilities _____ | Total Equity _____ |
| Debt-to-Equity Ratio _____ | |
| 3. Net Income _____ | Interest Expense _____ |
| Depreciation _____ | Principal Payment _____ |
| Debt Service Charge _____ | |

PAYMENT ABILITY:

| | ACTUAL for _____ | ACTUAL for _____ |
|--|---------------------|---------------------|
| Year's Total Revenues | \$ _____ | \$ _____ |
| Year's Total Expenses | -\$ _____ | -\$ _____ |
| Total Funds Needed to Refinance Debts | -\$ _____ | -\$ _____ |
| Depreciation | +\$ _____ | +\$ _____ |
| Principal/Interest Expense | +\$ _____ | +\$ _____ |
| Funds Available to Pay Debt Service | +\$ _____ | +\$ _____ |

1. Is the borrower developing architectural plans or actively seeking funding for a pending project that would impact the borrower's ability to refinance? Yes _____ No _____
2. Does the borrower's audit report or financial statement contain any notes regarding financial problems or risks? Yes _____ No _____
3. Is the loan's outstanding balance too small to interest private sector financing? Yes _____ No _____

Recommendations/Comments: (Can be documented using above-mentioned financial information.)

Reviewer's Signature

Date

2. INFORMATION FROM BALANCE SHEET DATED_____

LIABILITIES

e. Net Worth _____

[illegible]

TOTAL \$_____ \$_____

4. INCOME AND EXPENSE INFORMATION FROM STATEMENT DATED _____

(All information for calendar or fiscal year)(circle)

| | ACTUAL for _____ | BUDGET for _____ | PER UNIT |
|--|---------------------|---------------------|-------------|
| a. Year's Gross Revenue | \$_____ | \$_____ | _____ |
| b. Year's O&M Expense | -\$_____ | -\$_____ | _____ |
| c. Net from Operations | \$_____ | \$_____ | _____ |
| d. Agency Debt Service | \$_____ | \$_____ | _____ |
| e. Other Debt Service | -\$_____ | -\$_____ | _____ |
| f. Capital Expenditures from Operating Income | -\$_____ | -\$_____ | _____ |
| g. Reserve Account Deposit | -\$_____ | -\$_____ | _____ |
| h. Balance Remaining | \$_____ | \$_____ | _____ |

5. PROJECT INFORMATION

a. Unit of service _____ b. Number of units _____

c. Median household income of service area: \$_____

d. Median non-metropolitan household income for State \$_____

e. Annual unit cost for comparable facilities in similar communities within the State that have other financing:

| Community | Annual Unit Cost |
|-----------|------------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

6. Working Capital (2a minus 2b)

Deduct:

a. Restricted accounts

- _____

b. Reasonable O&M
(____ days O&M expense)

- _____

c. Debt Service
(____ days debt service)

- _____

d. Capital Expenditures
(Essential)

- _____

e. Reserve Funds
(cover short-term fluctuations)

- _____

f. Remaining Working Capital

7. Funds Needed to Refinance

a. Total funds needed to refinance debts
and to obtain lien position required
by investment lender:

\$ _____

b. Add cost to obtain credit to refinance

+\$ _____

c. Add credit for new capital expenditures

+\$ _____

d. Deduct adjusted working capital (6f)

-\$ _____

e. Credit required for refinancing

\$ _____

f. Estimated payments for:

| Type Credit | Years | Rate | Debt Service |
|-------------|-------|-------|--------------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

g. Total Payments

8. Payment Ability

- | | |
|---|-----------|
| a. Net from operations (4 c - 4g) | \$ _____ |
| b. Add other dependable revenue | +\$ _____ |
| c. Deduct capital expenditures | -\$ _____ |
| d. Deduct debt service (not refinanced) | -\$ _____ |
| e. Available to pay debt service (refinanced) | \$ _____ |

9. Ratios and Other Financial Factors

| | | | |
|----------------------------|-------|------------------|-------|
| Current ratio | _____ | Debt/Asset ratio | _____ |
| Debt service coverage | _____ | | |
| Debt per capita (GO bonds) | _____ | | |

10. Comments

11. Recommendations

Reviewer's Signature

Date

Supplemental Instructions for Thorough Review Worksheet

1. Complete a separate worksheet for each facility.
2. All debts with a final due date exceeding 12 months should be listed in Section 3. If the current portion of these debts is listed separately on the borrower's balance sheet, you should add the current portion to the debt and adjust the figure for current liabilities.
3. Obtain figures for the most recent fiscal year and a budget for the current fiscal year. Divide the annual budget figure by the number of service units provided by the facility. Do not include capital purchases that should be paid with borrowed or reserve account funds.
4. Ordinarily, unit of service for utility systems will be the number of equivalent residential users. For non-utility facilities, the unit may be the predominant unit of service, or for governmental services, the number of households in the service area.

Typical non-utility units are:

- Hospital, nursing home, residential care facilities – number of beds.
 - Schools - number of students.
 - Outpatient health care - number of visits.
 - Fire, rescue, library, government - number of households in service area.
5. Working capital should only include current, available assets. Deduct any asset set-aside in a charge-off account or any considered uncollectible. Ordinarily, borrowers expect to pay usual operating and maintenance and debt service from current assets and future net revenue.

The only expenditures to be included in this category are maintenance of the facility, i.e., repairs to roof, plumbing, and heating/air conditioning.
 6. In reaching a conclusion on the ability of a borrower to secure financing, reorganization of the entire debt structure must be considered.